Speech by
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Chairman of the Management Board of
Aareal Bank AG

on the occasion of the

Annual General Meeting

on 19/05/2010

in Wiesbaden

- Manuscript – the spoken word prevails -

Dear shareholders of Aareal Bank AG, dear guests,

I would like to extend a warm welcome – also in the name of my fellow members of the Management Board – to our Annual General Meeting here in Wiesbaden. I am delighted to see that so many of you have again accepted our invitation, thereby expressing your continued interest in our Company.

I. Introduction

At this point last year, and indeed upon the same occasion, I referred to an environment that could hardly have become more challenging. We can acknowledge today that the situation has improved overall compared with the previous year, although the market environment is still defined by a high degree of uncertainty. In any event, it is still too early to talk about normality – this applies both to the banking sector as well as to the so-called real economy.

Aareal Bank Group, with its tried-and-tested business model and prudent business policy, commands a strong and solid position in the midst of a market environment that still remains challenging – and at times, turbulent. We have mastered the crisis up to now in an excellent manner, and started the new financial year on a positive note, too: thanks to its pronounced strengths, Aareal Bank Group has very strong medium- to long-term prospects. I will discuss all these issues in more detail later.

Of course, we have to deal with the prevailing circumstances at any given time. For this reason, I would like to start my comments by looking at developments in our market environment, and at the economic and regulatory framework. First, I would like to look back.

II. The market environment during 2009

Ladies and Gentlemen,

2009, which was also "year one" following the bankruptcy of US investment bank Lehman Brothers, was largely defined by major uncertainties on financial markets worldwide. Confidence in banks, as well as trust amongst financial institutions, were rare commodities in 2009. The interbank market was severely disrupted at times.

The situation on financial markets only gradually began to ease during the course of the year, not only thanks to government support measures for the economy at large and the banking sector – the expansive monetary policy adopted by central banks also played a major role. In the course of these concerted, international efforts, the funding terms for banks also improved gradually during the year.

It is important to note in this context that the German Pfandbrief provided issuers with funds at all times, whereas the opportunities for placing uncollateralised debt instruments without a state guarantee were severely impaired at times. However, these markets also opened up again gradually during the year.

The real economy also presented a similar picture last year, in Germany as well as in many other countries: it was mired at the start of the year in the deepest recession for decades. From the mid-year point, a first hesitant and later on moderate recovery started.

The feared catastrophe for the global economy did not materialise. The banking sector has regained some of its strength. Many companies are once again profitable

– and entire economies are now making unavoidable changes to adjust to the new economic reality.

The speed at which the economy is recovering varies worldwide: whilst the USA have seen some initial signs of recovery, and some Asian economies even enjoyed strong upturns, economic recovery in Europe has been more sluggish.

The German economy stabilised very early on by European standards, and had changed tack towards recovery in 2009. Nevertheless, there was no sign of this recovery accelerating during the first quarter of 2010. This could also be attributable to the very long and harsh winter.

The full force of the global economic downturn impacted on the property markets – with the usual delay – in 2009. This was reflected by property price declines on many markets, as well as by a marked decline in commercial property finance transaction volumes in all the important regions. Despite a slight increase in volume in the second half of 2009, the markets were still only trading at the low levels last seen in 2003.

III. Review of the 2009 financial year

Ladies and Gentlemen,

Last year's distortions described above presented banks around the world with enormous challenges. A large number of financial institutions posted losses. Some banks had to make serious adjustments to their structures and business models within the scope of managing the crisis.

This was not the case with us.

Aareal Bank Group did not have to reinvent itself. Our business model, incorporating the strong columns of Structured Property Financing and Consulting/Services, has proved to be consistent and viable – particularly during times of crisis.

Aareal Bank performed very well in the extremely challenging environment of 2009, and succeeded in strengthening its market position. Our two segments, which made a profit in every quarter of the 2009 financial year, helped us to post a solid result for the full year, despite the difficult environment.

We owe our good performance not least to the committed team effort of our managers and staff. Their high degree of professionalism, tireless commitment and great sacrifices helped us to successfully overcome the crisis to date. I would like to take this opportunity, also on behalf of my colleagues on the Management Board, to express my sincere thanks for their cooperation.

I now want to look at our performance in 2009 in more detail, whereby I will limit my comments to a number of key figures. As always, we have provided you with our detailed Annual Report, which contains very comprehensive information.

Simply put, we can justifiably say that we have reached our targets for 2009. Not only that, but we have also delivered on our promises.

- All of the important financial ratios remain within the limits of our forecasted target corridors.
- We are servicing all subordinated financing instruments issued. Specifically, we pay interest on the SoFFin silent participation, on profit-participation certificates, and on other hybrid instruments.
- Aareal Bank's capitalisation and funding situation are very solid, even after the 2009 year of crisis. Our agreement entered into with SoFFin, which I will discuss in more detail later, was a major contributory factor.

I now want to touch on the most important individual items of our financial statements:

At € 460 million, net interest income was down 8 per cent on 2008. This reflects our conservative liquidity and capital position. In concrete terms, this means we built up or maintained high liquidity reserves throughout the year for security reasons, which of course burdened net interest income, owing to the historically low interest rate environment. In addition, last year's low interest rate environment resulted in considerably lower margins in the deposit-taking business with the institutional housing industry.

At € 150 million, allowance for credit losses was at the upper end of the projected target corridor. Although this represents a sharp increase over the previous year, it is definitely manageable. We believe this result reflects the high quality of our credit portfolio and the effectiveness of our intensive credit monitoring. We also remained largely immune to major individual defaults. Additional portfolio impairment in an amount of € 34 million recognised in 2008, on account of the difficult market environment, was not utilised in the 2009 financial year; in fact, it was increased by an additional € 14 million, bringing the total additional allowance to € 48 million.

Net commission income fell by around 11% to € 133 million. This figure includes costs of € 17 million for the guarantee facility extended by SoFFin for unsecured issues. Adjusted for this item, net commission income would have been exactly in line with the previous year.

At € 44 million, net trading income improved considerably over the previous year, when a loss of € 31 million was incurred. A review of the last two years highlights the unusually high volatility of this item by our standards, and reflects developments on the financial markets.

During the crisis, Aareal Bank was especially defined by strict cost discipline. We succeeded in once again reducing administrative expenses slightly, to € 361 million. This figure already includes € 6 million in non-recurring effects for adjustments made at Aareon AG.

One important aspect in this context: we are making savings, but with a sense of perspective. We are continuously increasing efficiency, but not at the expense of future business opportunities.

All told, we posted an operating profit of € 87 million – a very solid and satisfactory result, given the business environment.

Ladies and Gentlemen,

I already referred to the merits of our business model comprising two pillars. Both segments once again performed robustly during the financial year under review.

The Structured Property Financing segment generated operating profit of € 67 million, which is in fact marginally higher than in 2008. Although new business contracted by around 30%, to € 3.8 billion, it was some € 800 million above the upper end of our target corridor.

Against the background of the challenging market environment, we find this level appropriate. It is not a question of volume, but quality. Our new business operations focused on our existing client base, and on exposures eligible for inclusion in the cover assets pool. We foster long-term relationships with our clients, and act as a reliable partner even during difficult times.

Our very broadly-diversified property finance portfolio in geographical terms paid off once again last year. Within the scope of our three-continent strategy, we have a presence in 19 countries with local business units. This means we have established close proximity to our clients on all markets, and are in a position to manage credit exposures actively and intensively. Another characteristic of our approach: our portfolio comprises almost 90 per cent financings of existing properties. We therefore adhere to our risk-sensitive approach, and become involved in project development financings on a selective basis only.

The very solid development of our Consulting/Services segment remained intact during the previous financial year.

This is particularly relevant for our IT subsidiary Aareon. Despite the recession, which led to lower volumes of project tenders in the market, especially in the first half-year, Aareon's sales revenues were up 1.5 per cent, to € 153 million. At € 22.6 million, operating profit even exceeded the previous record, established in 2008. This positive development is owed to Aareon AG's business model, which incorporates a successful multi-product strategy.

More than 85 percent of Aareon's total sales originate from long-term contracts. Accordingly, our business here is less cyclical. The new Wodis Sigma product line remained particularly successful: more than 200 contracts were signed during 2009.

In the banking business with the German institutional housing industry, we successfully maintained our position as the industry's main banking partner – in fact, we succeeded in attracting business from additional companies operating more than 170,000 residential units. At roughly € 4 billion, the average volume of deposits in 2009 remained stable compared with the previous year. However, the interest rate environment burdened net interest income in the deposit-taking business.

This was one of the reasons that operating profit in the Consulting / Services segment fell to € 20 million. Non-recurring expenses of € 6 million for capacity adjustments at Aareon, as well as expenditure for the suspension of non-core activities, were additional factors burdening results. All in all, we can be satisfied with the segment result in view of the adverse environment.

Ladies and Gentlemen,

In the current situation, particular attention is paid to capitalisation and the bank's funding situation. We can go on record here in saying that Aareal Bank Group offers a stable, solid overall picture. We remained well-capitalised throughout the entire crisis, and have been comfortably refinanced.

At year-end 2009, our Tier 1 ratio – calculated in accordance with the Credit Risk Standard Approach (CRSA) – was 11.0 per cent. This is a very good level compared with our national and international peer group, and three percentage points higher than in the previous year. The ratio would probably have been even higher had we applied the so-called Advanced Approach, which we plan to implement this year. Tier 1 capital, including the silent participation from SoFFin, rose to € 2.415 billion. In view of the competition and potential regulatory changes, we are in a very comfortable position, also thanks to our low leverage ratio – the ratio of total assets to equity. At present, we do not see any need for adjustments here.

Although – as I already mentioned – 2009 was a very challenging year in relation to refinancing, we successfully raised € 5.4 billion in long-term funds on the capital market. This means that we implemented our plans without having to make compromises. We employed the range of refinancing vehicles available to us in a flexible manner, depending on the prevailing market situation. We raised € 2.3 billion through mortgage bonds, € 2 billion through a SoFFin-guaranteed issue, and € 1.1 billion through unsecured bonds.

As a consequence of the easing on the refinancing markets during the course of the year, issuing volume tended to increase, maturities were extended and spreads tightened. We also benefited from these market trends.

Ladies and Gentlemen,

Overall, we conclude that 2009 was a positive year: Aareal Bank performed well in a challenging market environment and strengthened its market position further. Our business model is sustainable. Our risk-sensitive business policy has paid off: the bank remained healthy and sound – ready and able to master the still-challenging environment and to consistently exploit market opportunities that arise in the future.

IV. SoFFin support

Ladies and Gentlemen,

A risk-sensitive and forward-looking strategy also means exploiting all opportunities that arise to permanently sustain the bank and its own success. We actively adopted precautionary measures at an early stage in February 2009, and decided to enter into an agreement with the German Financial Markets Stabilisation Fund (SoFFin). I already reported in detail about this at the 2009 Annual General Meeting: this was entered into from a position of strength – not as an acute emergency measure.

As you know, SoFFin provided us with a silent participation in the amount of € 525 million, as well as a guarantee facility for unsecured issues totalling up to € 4 billion. This range of instruments have served, and still serve, as protection for a limited period of time – in the interest of investors, clients and staff. In hindsight, the decision to make use of the facility was correct. It equipped us against all the uncertainties of the crisis. We were able to focus more on our operating business and our clients, which would have otherwise been impossible, given the tense situation on the market.

The agreement entered into with SoFFin includes no conditions imposed upon our operative business, nor will the government exert any influence over our business model. As a healthy institution, we were not required to submit a restructuring plan. Moreover, SoFFin is not represented on our Supervisory Board. Leveraging our sustainable and viable business model, we were able (and still are able) to continue our successful development as an independent bank, with a stable shareholder structure and Aareal Holding as our anchor shareholder. Finally, structuring support as a silent participation ensured that the SoFFin measure did not dilute shareholdings.

I know from many discussions I have had with investors that they understood and welcomed our decision to make use of the SoFFin funds. I would like to express my sincere thanks to you, our shareholders, for your moral support in relation to this difficult decision!

V. The Aareal Bank share

Ladies and Gentlemen,

As shareholders, you are looking back at an eventful year – both in relation to equities markets in general as well as to the Aareal Bank share. The distortions triggered by the collapse of Lehman Brothers reached their peak in early 2009, with international indices hitting lows.

2009 was a difficult year, especially for financial issues. The market did not differentiate between the quality of individual banks, at least not during the first half of the year: even healthy banks were sucked into the negative sector development.

The Aareal share reached its low of € 3.25 in the spring of 2009. The fall in the share price saw market capitalisation reach a historically low level (which was unfounded from a fundamental perspective), thus bringing about Deutsche Börse's decision in March 2009 to transfer our share from the MDAX into the SDAX. However, the Aareal Bank share quickly returned to the MDAX, within the scope of the next regular meeting of Deutsche Börse's Equity Indices Workgroup in September.

This was due to the remarkable performance of our share in the course of the general recovery on stock markets during the second and third quarters of 2009. The share price rose by up to 450 per cent at the peak over the low of that year. Bank stocks were once again affected disproportionately by the equity market consolidation in the fourth quarter. Nonetheless, the Aareal Bank share posted a 130 per cent increase at year-end 2009 over the year-end price of 2008.

We therefore significantly outperformed the DAX and the MDAX, as well as the Prime Banks performance index, in the course of the year. At year-end 2009, Aareal Bank's market capitalisation was in the region of € 570 million.

This positive development continued into the first quarter of this year. The Aareal Bank share closed at € 16.20 on 31 March, which represented a 20 per cent increase over the start of the year.

The discussions about the debt levels of Greece and other countries burdened price performance during the spring of 2010. Although our exposure to the countries in question is below the industry average, we were unable to escape the general sentiment. Regardless of this, yesterday's closing price of € 15.00 represents an increase of 13.1 percent since the start of the year. By comparison, our reference index, the MDAX, gained 10.8 percent.

We consider this to be an expression of the fundamental trust in our business model and in the management of our bank that we have encountered in the many discussions held with investors.

We see this as confirmation and at the same time as motivation to continue working hard for the lasting success of the bank, thus providing you as shareholders with sustainable value.

VI. Comments on the agenda items

At this point, I would like to discuss briefly the agenda for today’s Annual General Meeting.

First of all, I would like to draw your attention to the fact that the comprehensive report of the Management Board regarding disclosures required under sections 289 (4) and 315 (4) of the German Commercial Code is contained in the Management Report and the Group Management Report, as well as on our website. You can also obtain a copy today, at our information stand.

Agenda item no.1 refers to the presentation of the statutory documents. Under agenda item no.2, we propose to transfer the net retained profit of € 2 million to other retained earnings. Agenda item nos. 3 and 4 propose a resolution to grant formal approval to the Management Board and the Supervisory Board. Agenda item no. 5 contains the proposal regarding the appointment of an external auditor.

The authorisations for the purchase of treasury shares proposed in agenda item nos. 6 and 7 are standard conventions that are widely used in practice.

In agenda item no. 8, we propose a resolution approving new authorised capital, since the authorisation approved back to 2005 will expire this year. The proposal for resolution authorises the Management Board to exclude shareholders' pre-emptive rights to new shares in specific cases where it makes economic sense to do so. In the event of capital increases against contributions in cash, authorisation is limited to 10 per cent of the issued share capital, but on aggregate to 20 per cent of the issued share capital, for example in the case of capital increases through contributions in kind.

This proposal to create authorised capital constitutes a global authorisation. The new authorisation is intended to provide the Management Board with the necessary options for any capital adjustments. This offers the Management Board the scope to adjust Aareal Bank AG's capitalisation in line with the commercial and legal requirements. At present, the Management Board has no concrete plans for utilisation.

Authorisation to issue convertible bonds and create conditional capital under agenda item 9 need to be updated in accordance with current legislation. The Management Board's detailed reports in these authorisations in agenda item nos. 7, 8 and 9 were published with the agenda. They are available on Aareal Bank's website as well as at this Annual General Meeting. I would like to make reference to these reports.

Following publication of the invitation, we were made aware of comments by a shareholders' association related to the proposals in agenda items nos. 7, 8 and 9. We took up these proposals, and published the following explanation regarding the limit imposed on issuing shares within the scope of the exclusion of shareholders' pre-emptive rights on our website on 4 May – I quote:

“In relation to the items nos. 7, 8 and 9 on the agenda of our Annual General Meeting on 19 May 2010, as announced in the Electronic Federal Gazette on 6 April 2010, the Management Board of Aareal Bank AG hereby informs its shareholders that the Management Board has decided to exercise the relevant authorisations, in the event of them being adopted by the Annual General Meeting, subject to the following limitations:

1. In the case of the acquisition of own shares (item no. 7 on the agenda) by means of derivatives, the maturity of the individual options may not exceed 18 months. They must expire on 18 May 2015, at the latest, and must be chosen in such a manner that the treasury shares, when exercising the options, may not be acquired after 18 May 2015.

2. The issue of shares, which

    (i) are issued on the basis of the authorisations regarding item no. 8 on the agenda (Authorised Capital) to the exclusion of the shareholders' subscription rights; and/or

(ii) are issued, are capable of being issued, or are required to be issued, on

the basis of convertible bonds and/or bonds cum warrants as per item no. 9 on the agenda, which are issued to the exclusion of the shareholders' subscription right, is limited as a whole to twenty per cent of the company's share capital at the effective date or (if lower) at the time of exercise of the respective authorisation.

The Management Board has undertaken to make this statement at today's Annual General Meeting. We kindly request that you take this statement into consideration when casting your vote. We want to protect our shareholders' interests against dilution in the event that new shares are issued on the basis of the aforementioned authorisations.

New elections to the Supervisory Board are proposed under agenda item 10. Although the ordinary term of office of the Supervisory Board would extend until end of the 2011 Annual General Meeting, new elections are necessary at this year's Annual General Meeting owing to the cross-border merger of Aareal Bank France S.A. into Aareal Bank AG. This merger resulted in a change in the regulations that are relevant for the composition of the Supervisory Board of Aareal Bank AG. The German Act to Simplify the Election of Employee Representatives to the Supervisory Board (the so-called One-Third Employee Participation Act) has been replaced by a co-determination agreement entered into by the executive boards of the two companies with a European Works Council selected in accordance with the legal provisions. This agreement came into effect with the merger on 29 April 2010. Hence, the composition of the Supervisory Board no longer complied with the relevant provisions from this point in time. After implementation of the necessary status proceedings, new elections to the Supervisory Board are necessary at this Annual General Meeting.

Under agenda item no. 11, we request the approval of the remuneration system for Management Board members, the principles of which were already explained by Mr Reich. The legislator facilitated this last year. We want to implement this in the interests of setting standards of good corporate governance in the Company. The remuneration system and the comprehensive remuneration report are included in the Annual Reports issued by Aareal Bank and by Aareal Bank Group, copies of which can be obtained here today.

In the final agenda item, no. 12, we propose two amendments to the Memorandum and Articles of Association. They concern the deadline for convening Annual General Meetings, and the exercise of voting rights by authorised representatives. The amendments were necessary after the Act Implementing the Shareholder Rights Directive (Gesetz zur Umsetzung der Aktionärsrechterichtlinie – "ARUG") implemented the corresponding provision that came into effect as at 1 September 2009.

The documentation relating to the individual items of the agenda was available at the Company's offices from the day on which the Annual General Meeting was convened. It was also published on the internet.

Ladies and Gentlemen,

On behalf of the Management Board and the Supervisory Board, I request you to approve the proposals put forward by the Management. We believe that they are in the best interests of the Company, and therefore in your interests too as shareholders of Aareal Bank.

This concludes my comments on the agenda items.

VII. Current business development and outlook

I would now like to turn to current developments in the market environment and in relation to our business.

Looking back at the year 2009, I pointed out that the massive and coordinated reaction by governments and central banks last year prevented even greater distortions on the capital markets – which would have undoubtedly had even more serious repercussions for the economies; we have started to return to a normal state of affairs in recent months.

However, we should not be under any illusion: the situation on financial markets remains fragile, and the economic situation continues to represent a challenge for many companies. This is reflected in our cautious outlook for the 2010 financial year, which I will cover in more detail later.

The latest trouble spot arising from the financial markets crisis is the debt crisis affecting Greece in particular, as well as other countries. Lower revenues due to economic factors, accompanied by simultaneous higher spending, has resulted in a significant increase in government borrowings in most industrial nations. Concerns about its solvency peaked initially in the discussions about Greece. The European

Union and the International Monetary Fund have responded to the dramatic situation affecting the country, with a joint aid package worth € 110 billion in total.

Shortly afterwards, the EU countries – again jointly with the IMF – recognised the need to launch a comprehensive € 750 billion support package to stabilise the euro zone. The immediate market reaction to this decision was very encouraging. It will take weeks and months to determine if it will help settle market players on international financial markets in the long-term and contribute towards a sustained stabilisation of the euro.

We remain hopeful that the shock triggered by the Greek crisis in recent weeks will have a disciplinary effect on other European Union members. All EU member states should not just pay lip service to sustained consolidation and the obligation to meet the stability criteria of the Maastricht Treaty in order to secure the permanent success and stability of the euro.

I would also like to point out here that Aareal Bank does not hold any Greek government bonds in its portfolio. Similarly, we have not financed any properties in Greece.

Ladies and Gentlemen,

A review of 2009 and a glance at the prevailing volatility on financial markets show that we are still dealing with significant aftershocks of the financial and economic crisis – even if the causes of some problems were created within individual countries, for example in Greece.

These aftershocks also include the multi-faceted efforts on a national and international level, to structure the regulation of the financial sector in such a way that crises can be avoided in the future as far as possible. Aareal Bank will also be affected by these considerations. Without looking at the individual proposals in detail, I would like to make a few general comments about this issue.

We believe it is fundamentally appropriate to discuss more effective regulation of our sector. One of the lessons learnt from the crisis is that it is necessary to structure more stable financial systems for the future, and to promote long-term thinking and action. I explicitly support measures that serve to achieve these goals. But I do want to warn against making over-hasty decisions. I also want to warn about excessive intervention, which could impair the operability and the economic role played by the banking sector.

From our point of view, the new regulations must be structured with maximum care, ensuring practical efficiency, avoiding competitive distortions and above all with a sense of perspective. This applies to the bank levy proposed in the Government's white paper on financial market regulation, as well as development of the capital adequacy requirements for banks that were discussed on an international level under the heading "Basel III" or the enhanced harmonisation in banking regulations within the EU.

We have, on a number of occasions, offered politicians our support in drawing up practical solutions with a sense of perspective. We are of course still prepared to contribute our expertise, if it is required. It is not yet clear which measures will be implemented and how. Even though we do not exactly know at the moment what changes are forthcoming, we feel that we are fundamentally well-positioned - with our very strong capital position, our moderate leverage ratio, our solid refinancing situation and above all, our business policy that is focused on sustainability.

Ladies and Gentlemen,

I would now like to turn to developments during the current financial year and to our medium-term prospects.

We have already published our comprehensive interim report for the first quarter of 2010 on 11 May. I want to focus on a few issues here that I deem important.

To start with the good news: Aareal Bank Group started the new financial year on a positive note. We have once again defied the still-adverse market environment, and concluded the first quarter with a marked improvement in results. At € 30 million, consolidated operating profit exceeded the previous quarter as well as the first quarter of 2009. In light of current circumstances, we can be very satisfied with this result. Both segments once again contributed to the positive result, and once again, we performed very well relative to our peers with these quarterly statements.

With net interest income of € 117 million for the first three months of the financial year, we succeeded in regaining the levels achieved in the first quarter of 2009, after a slight decline in previous quarters – that is to say, net interest income in Q1 2010 was at exactly the same level as in Q1 2009. Lower income as a consequence of the slight decline of the loan portfolio was more than compensated for by higher margins from the lending business and a reduction in the – still comfortable – liquidity reserve. The margin from the deposit-taking business in the institutional housing industry is down slightly, due to persistently lower interest rate levels compared with the first quarter of 2009.

Allowance for credit losses remains at a manageable level in absolute terms and was within the normal fluctuation range in the first quarter. At € 32 million, allowance for credit losses was down on the previous quarter as well as on the same quarter of the previous year.

Although we welcome this development in view of the still-challenging market situation, we remain cautious. Our forecast is unchanged: allowance for credit losses for the full-year is expected to range between € 117 million and € 165 million, depending in particular on the extent to which the additional allowance for credit losses (which was increased from € 34 million to € 48 million in the 2009 financial year) will in fact be utilised.

At first glance, net commission income, which posted a year-on-year decline from € 36 million to € 30 million, seems to have developed unfavourably. However, unlike last year, this figure reflects the running costs for the guarantee facility extended by SoFFin. Adjusted for this effect, net commission income was virtually unchanged.

Net trading income of € 6 million was attributable above all to the valuation of trading derivatives used to hedge against interest rate and currency risk. The very volatile net trading income/expenses figure is expected to return to normal again with the stabilisation of the financial markets. For an institution such as Aareal Bank, that does not operate substantial trading activities, this item should not have a significant permanent impact on income. We will achieve these circumstances again in the near future. However, should the measures adopted by the EU and the IMF fail to succeed, in which case market volatility is set to remain high, we cannot exclude continued material fluctuations in net trading income/expenses.

At € 91 million, administrative expenses in the first quarter were down by € 3 million from a year earlier. This reflects the continued strict cost discipline exercised at Aareal Bank.

With regard to the figure of € 30 million for consolidated operating profit, taking into consideration taxes and non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 16 million. After deduction of the net return on the SoFFin silent participation, consolidated net income stood at € 8 million.

Ladies and Gentlemen,

Performance at our Structured Property Financing segment was positive overall at the start of the year. Business development in the first quarter once again confirms our approach towards pursuing a sustainable and cautious business policy.

We continue to focus in particular on the financing requirements of our existing client base. We have also funded new investment projects with target clients, on a selective basis. In concrete terms, this means that we only enter into transactions that meet our strict risk requirements, and also offer an attractive margin.

We increased our new business in the first quarter to € 1.3 billion, after roughly € 0.5 billion for the first quarter of the previous year. The share of renewals was scaled back.

Operating profit in the Structured Property Financing segment rose in the first quarter to € 24 million; given the current circumstances, this represents a very solid figure and renewed confirmation of the robustness of our business.

This also applies to the Consulting / Services segment, which again performed well in a difficult environment. The interest rate environment remains unfavourable for the deposit-taking business with the institutional housing industry, whose earnings are posted in this segment. Despite strong competition, we succeeded in maintaining a stable level of deposits, at just under € 4 billion.

The business activities of our IT subsidiary Aareon corresponded to seasonal expectations, and business was thus within the target corridor. Wodis Sigma in particular, developed well during the new financial year to date. In the first quarter alone, 35 contracts for the new product generation were signed.

A quick glance at our capitalisation and funding shows that we continue to remain stable in this respect.

Our Tier 1 ratio as at 31 March 2010 – measured in accordance with the Credit Risk Standardised Approach (CRSA) – improved further to 11.2 per cent. The ratio would have been even higher had we used the so-called Advanced Approach that is used by most of the big banks. We are currently working intensively on introducing this approach.

Aareal Bank Group's funding activities were successful in the first quarter of this year, too: we raised a total of just under € 1.2 billion in long-term funds on the capital market. This included mortgage bonds with a total volume of nearly € 800 million, as well as unsecured funding totalling just under € 400 million.

I would like to summarise our performance in the first quarter:

We have started the 2010 financial year on schedule, and on a successful note. We continue to exercise control over our risks and exploit opportunities to acquire new business, whilst exercising judgement. We benefit from the fact that we have weathered the crisis relatively unscathed up to now, and have retained the flexibility to act both strategically and in operative terms.

We have remained on track over the course of the second quarter, too. In light of the still-volatile market environment, it is too early right now to make more in-depth statements.

We will remain vigilant and cautious. Nevertheless, we also remain fundamentally optimistic – not only for our own future prospects, but also with regard to the property industry in general and property finance in particular.

Together with my colleagues on the Management Board, I am extremely confident that Aareal Bank Group is well-positioned to further expand its market position in a sustainable manner, during the course of this year and beyond.

There is no doubt that the 2010 financial year will not be any less challenging for our industry than the year before. From today's perspective however, we see strong potential for Aareal Bank to increase its consolidated operating profit in the current year. With a good one-third of the year behind us, we continue to confirm the outlook we have communicated for the year as a whole.

It is too early for concrete earnings guidance in view of the uncertainties described above. Potential volatility on the financial markets could impact on net trading income/expenses in particular.

However, we have set target figures for some of the important indicators, to which we remain committed.

Net interest income, for example, is expected to increase to between € 460 and € 480 million. As stated above, allowance for credit losses recognised in income is expected to range between € 117 million and € 165 million. The exact outcome will depend on market developments on the one hand, and on the utilisation of the additional allowance for credit losses (which was increased from € 34 million to € 48 million in the 2009 financial year) on the other. As in the previous year, the bank cannot rule out additional allowances for credit losses that may be incurred during 2010.

Administrative expenses are expected to be roughly in line with last year's level.

From today's perspective, new business generated in the Structured Property Financing segment is expected to increase to between € 4 billion and € 5 billion - with a reduction in the share of loan renewals. Operating profit in the Consulting/Services segment should increase slightly over adjusted operating profit generated in the 2009 financial year.

As we stated in February of this year, against the background of a sound performance to date throughout the crisis affecting financial markets and the economy, and our solid capitalisation, we plan to start repayment of the silent participation provided by the SoFFin, between now and the beginning of 2011. We are consistently working towards this target.

We have not yet agreed on the volume of the first redemption tranche. It will depend on how our business develops. Secondly, as I pointed out earlier, we have to take into account the capital market environment and the emerging changes to the regulatory framework.

Various repayment options are available to us. We have not yet decided which of these to use.

At this point, I only want to note that we do not have to maintain the current Tier 1 ratio level to secure our stable business model in the medium to long-term. The level at which the capital requirements will be set in the future is not yet clear. We consider a level of 10 per cent to be perfectly adequate. Given our current ratio of 11.2 per cent (based on the standardised approach), this leaves quite some leeway indeed. If we switch to the Advanced Approach this year, as planned, this scope (that is theoretically available) would probably expand even further, by at least one percentage point. We are, however, unable to exactly quantify this effect, since we do not know future regulatory requirements, nor are we in a position to quantify the precise impact of the planned switch to the Advanced Approach.

The Management Board's objective is to repay the SoFFin funds as quickly as possible, depending on the business situation and the general market environment. We are working towards this target. However, we do not want to commit ourselves yet to an exact point in time when we envisage completing the repayment.

It is important to take this step from a position of strength: we are not under any time pressure, and are absolutely free to choose the repayment terms. The only criterion to be adhered to is to bear the well-being and interest of the Company and its shareholders in mind.

For the time being, we will retain the guarantee facility of € 2 billion that has not yet been utilised, even though I would like to clearly emphasise that we currently have no intention of using it. Why then retain it for the time being? It represents a type of insurance for us. The situation on the capital markets remains fragile, and we want to keep all options open for our funding activities. Furthermore, the costs for this additional collateral are manageable; in total, we are paying only € 2 million in the current year for the provision of this facility.

What are our projections beyond the current financial year?

Such forecasts are subject to great uncertainty, especially in the current environment. However, we assume that consolidated operating profit will improve further in 2011. Net interest income is expected to continue rising next year, whilst risk costs and administrative expenses are expected to remain roughly at 2010 levels.

We are confident that the gradual normalisation of the market environment, which should kick in during the current year, will continue into next year too. We assume that markets will return to normal again as of 2012.

We consider this scenario to be very realistic indeed. In reaching these assumptions we have been able to draw in part upon the expertise of our staff. They have their ear to the ground on all three continents in which we are active. They know the players and recognise trends early on. Additionally we have used studies that are available on the market, and other information.

Against this background, we firmly believe in the future potential of this business – provided it is conducted in the manner in which we operate it: carefully, prudently and with a sense of perspective.

This positive view is supported on the one hand by the long-term rising demand for property and finance – arising from population growth in many emerging regions of the world, or through greater demand for renovation and investment in the developed markets.

These global trends remain intact. In addition, client behaviour has changed since the outbreak of the crisis. The short-term oriented investors no longer play a major role. Investment is dominated again by the real property professionals, who take a long-term view similar to ours as a financier. This gives us an advantage. However, we should not forget that the crisis has changed the competitive landscape. Some providers have disappeared completely, while others have reduced their commercial property finance business. Aareal Bank is still here, and we will benefit from these changes.

All in all, this means that after the establishment of a stable economic base in many places this year, and the subsequent gradual return to normality, we see very good prospects for a sustained, sharp recovery in investments and in transaction volume on the property markets worldwide.

A soundly-managed bank such as Aareal Bank will utilise its strengths in full again: our lending policy that is focused on on solidity and sustainability, our renowned proximity to clients and the market, our flexibility as a medium-sized company, our forward-looking refinancing policy, and a sound balance sheet structure.

Our coherent and viable business model has positioned us favourably, not only to overcome the current challenges confronting us, but also to further expand our position as a leader in our business. This applies not only to our property finance business but also to our services business. We intend to further enhance existing relationships with the institutional housing industry. In addition, we will develop new client groups for our services business. We are looking at the energy and utilities sector in particular, where we have already established some very interesting new relationships.

Overall, we are concentrating primarily on organic growth for all of our business divisions in the years ahead.

However, this does not mean that we have ruled out acquisitions entirely. Rather, it is our responsibility as the Management Board of this Company to carefully observe market developments and fundamentally sound out any opportunities that arise. We do not comment on individual transactions, which would only be speculated upon in the media. We will only do this when we have something definite to talk about.

As a matter of principle:

The sustainable, cautious and conservative business policy that we have pursued in recent years and months has paid off, and we continue to adhere to this policy in the future too.

Furthermore, we believe that we can create great potential for our bank on the basis of our own strengths and ability.

Once markets have returned to normal – which, as I already mentioned, can be expected as of 2012 – we will enjoy sustainably profitable growth on the basis of our tried-and-tested business model and significantly improve our indicators.

For the Structured Property Financing segment, consistent implementation of its three-continent growth strategy will lead to significant growth in the credit portfolio, and accordingly, in income. Results in the Consulting/Services segment should also increase notable, in an interest rate environment that should have improved for the deposit-taking business by that time. The development of new client groups will also contribute to this scenario.

All in all, the Management Board expects that, helped by the trend towards rising cost-efficiency, the bank will generate a consolidated return on equity before taxes of at least 12 to 13 per cent as of 2012.

By that stage, we will have finally left the crisis behind us, and with it, the factors which have applied the brakes to our profitable expansion in the last few years.

We are convinced that the winners in the crisis will be those banks that combine property-specific expertise with judgement in their risk policy. We have proven our success in this respect in the past, and will continue to consistently exploit the growth opportunities presented to us in the future - to the benefit of our clients, our staff, and our shareholders.

VIII. Conclusion

Dear shareholders,

Aareal Bank Group has weathered the financial markets crisis better than most of its competitors. It is very well-positioned to meet the current challenges, and the opportunities that will arise in the future. These are excellent prerequisites for creating long-term value. We would like to express our gratitude for the confidence that you have placed in us to date, and would like to ask you for your support on our journey towards a successful future.

Thank you very much for your attention.